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G-7 Fine-Tunes Currency Policies

Early April was a lovely time in Washington, perhaps particularly for the Group of Seven industrial country finance ministers and central bankers who met April 2 near Mount Vernon in suburban Virginia. Not only could they admire what nature had wrought, the group had reason to be pleased with its own handiwork. In contrast to the tumultuous exchange markets between 1985 and late 1987, currency markets were remarkably tame in 1988 and in early 1989. Many analysts credit the G-7 process for this happy result.

Of course, the officials did not lack problems to discuss. High on the agenda were the seemingly intractable Third World debt problem and the latest scheme to deal with it, the Brady Plan (see JEI Report No. 11B, March 17, 1989). Furthermore, the currency markets, while not veering out of control, were a renewed cause of concern.

or 20.2 percent of all patents, followed by West Germany with 7,501 successful applications. Of greater concern was that Hitachi, Ltd. received the most U.S. patents of any company. Among the top 10 patent recipients, only International Business Machines Corp. and General Electric Co. prevented the United States from being shut out by foreign firms. For comparison, only 6.5 percent of all Japanese patents registered in 1987 went to foreigners, with the United States accounting for about half the total.

The statistics immediately led to rumblings from Congress about unequal patent systems. Senator J.D. "Jay" Rockefeller (D, W.Va.) revealed his frustration over the imbalance, observing that JPO officials keep "saying they're making improvements, but I'm getting tired of hearing that."

Whether Sen. Rockefeller's frustration will lead to retaliatory legislation is uncertain, but unlikely. PTO officials and representatives of large American businesses are increasingly optimistic that U.S. efforts in the Uruguay Round and WIPO will bear fruit. Since any fruit is likely to take a long time to ripen, however, the issue of intellectual property protection will remain on the U.S.-Japan agenda for some time.

Jon Choy

Notes

Distribution System - The multilayered, inefficient Japanese distribution system is changing, but the process remains painfully slow and uneven. That observation is underscored by the recently released preliminary results of the 1988 Census of Commerce. For example, the newest snapshot of retailing depicts a continuing move toward consolidation in the industry, although this streamlining is barely visible at the aggregate level since the total number of

Distribution Sector Indicators, 1982, 1985 and 1988

	1982	1985	1988
Retail Industry			
Number of Outlets	1,721,465	1,628,644	1,619,599
Retail Outlet/Wholesale Establishment Ratio	4.01	3.94	3.71
Number of Employees	6,369,000	6,329,000	6,850,478
Number of Employees per Outlet	3.7	3.9	4.2
Population per Retail Employee	18.6	19.1	17.9
Annual Sales (million yen*)	Y93,971,000	Y101,719,000	Y114,829,000
Annual Sales per Outlet (thousand yen*)	Y54,588	Y62,456	Y70,900
Annual Sales per Employee (thousand yen*)	Y14,754	Y16,072	Y16,762
Selling Space (thousand square meters)	95,430	94,507	102,096
Annual Sales per Square Meter of Selling Space*	Y984,711	Y1,076,312	Y1,124,716
Per Capita Sales*	Y791,481	Y840,313	Y935,242
Sales/Inventory Ratio	9.4	10.3	9.8

	1982	1985	1988
Wholesale Industry			
Number of Establishments	428,858	413,016	436,502
Number of Employees	4,091,000	3,998,000	4,331,681
Number of Employees Per Establishment	9.5	9.7	9.9
Population per Wholesale Employee	29.0	30.3	28.3
Annual Sales (million yen*)	Y398,536,000	Y428,291,000	Y446,423,000
Annual Sales per Establishment (thousand yen*)	Y929,296	Y1,036,984	Y1,022,728
Annual Sales per Employee (thousand yen*)	Y97,418	Y107,126	Y103,052
Wholesale/Retail Turnover Ratio	4.24	4.21	3.89

*The following average annual exchange rates can be used to convert the yen figures: 1982, Y249.08; 1985, Y238.54; and 1988, Y128.15.

Source: Ministry of Finance, Census of Commerce

Size Structure of Japan's Distribution Sector, 1982, 1985 and 1988

Retail Industry

Number of Employees	1982 Outlets		1985 Outlets		1988 Outlets	
	Number	Share	Number	Share	Number	Share
1-2	1,036,000	60.2%	940,000	57.7%	874,330	54.0%
3-4	413,000	24.0	408,000	25.0	422,025	26.1
5-9	188,000	10.9	190,000	11.7	213,999	13.2
10-19	54,000	3.1	58,000	3.6	70,382	4.3
20-29	15,000	0.9	15,000	0.9	19,183	1.2
30-49	9,500	0.6	10,000	0.6	12,249	0.8
50-99	4,500	0.3	4,800	0.3	5,361	0.3
100+	1,900	0.1	2,000	0.1	2,070	0.1
Total	1,721,465	100.0	1,628,644	100.0	1,619,599	100.0

Wholesale Industry

Number of Employees	1982 Establishments		1985 Establishments		1988 Establishments	
	Number	Share	Number	Share	Number	Share
1-2	100,000	23.3%	93,000	22.5%	95,340	21.8%
3-4	108,000	25.2	105,000	25.4	110,109	25.2
5-9	120,000	28.0	115,000	27.8	121,646	27.9
10-19	61,000	14.2	59,000	14.3	64,689	14.8
20-29	18,000	4.2	18,000	4.4	20,078	4.6
30-49	13,000	3.0	12,000	2.9	13,898	3.2
50-99	7,000	1.6	6,900	1.7	7,786	1.8
100+	2,800	0.7	2,700	0.7	2,956	0.7
Total	428,858	100.0	413,016	100.0	436,502	100.0

Source: Ministry of International Trade and Industry, Census of Commerce

outlets declined by a mere 0.6 percent (9,000-plus units) between 1985 and last year, far short of the 5.4 percent (nearly 93,000 units) drop that occurred in the 1982-85 period. On closer inspection, however, it is clear that the swollen ranks of mom-and-pop stores are being thinned -- a major requirement for a more efficient retail industry. Almost 66,000 shops with one or two workers have gone out of business over the last three years on top of the 96,000 or so that closed their doors between 1982 and 1985.

This contraction together with an increase in the number of stores in every other size category helped to keep annual sales per outlet rising at a three-year rate in the mid-teens. At the same time, however, the growth in two productivity indicators -- annual sales per employee and annual sales per square meter of sales floor space -- was halved between the 1985 and the 1988 census years. This slowdown suggests that the days of easy efficiency gains are behind Japan's retail industry. Additional progress will take more than a further drop in the number of mom-and-pop shops and an increase in stores with three to nine employees. It will require the simultaneous growth of big and midsized retailers -- department stores, supermarkets, discount houses and specialty chains, but their expansion could be stymied without changes in government policies.

A more efficient Japanese distribution system also hinges on a reduction in the multiple tiers of wholesalers supplying the retail industry. On this score the 1988 commercial census was anything but encouraging. The number of wholesale establishments, which had declined 3.7 percent (nearly 16,000 locations) between 1982 and 1985, inexplicably increased 5.7 percent (well over 23,000 units) to a new record. What made this renewed expansion all the more disturbing was the fact that growth occurred across-the-board, both in terms of establishment size and products handled.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.